

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Evart Public Library	County Osceola
Fiscal Year End 6-30-06	Opinion Date 8-29-06	Date Audit Report Submitted to State September 29, 2006	

We affirm that:

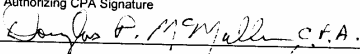
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|-------------------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Douglas P. McMullen	License Number 1101007898

EVART PUBLIC LIBRARY

EVART, MICHIGAN

YEAR ENDED JUNE 30, 2006

EVART PUBLIC LIBRARY
EVART, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

August 29, 2006

INDEPENDENT AUDITORS' REPORT

To The Members of the Board
Evart Public Library
Evart, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Evart Public Library, Evart, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Evart Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Evart Public Library as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through vii and 16, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Evart Public Library, Evart Michigan's basic financial statements. The accompanying financial information listed as "Other Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

Evert Public Library, is located in Osceola County, Michigan. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Evert Public Library's administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as long-term debt of the Library.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

C. Summary of Net Assets

The following schedule summarizes the net assets at June 30:

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets	\$ 82,853	\$ 71,929
Non Current Assets		
Capital Assets	\$ 889,744	\$ 879,063
Less Accumulated Depreciation	(231,764)	(178,962)
Total Non Current Assets	\$ 657,980	\$ 700,101
Total Assets	<u>\$ 740,833</u>	<u>\$ 772,030</u>
Liabilities		
Current Liabilities	\$ 8,094	\$ 61,095
Non Current Liabilities	32,690	0
Total Liabilities	<u>\$ 40,784</u>	<u>\$ 61,095</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	\$ 619,244	\$ 641,362
Unrestricted	80,805	69,573
Total Net Assets	<u>\$ 700,049</u>	<u>\$ 710,935</u>
Total Liabilities and Net Assets	<u>\$ 740,833</u>	<u>\$ 772,030</u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2006, the Library's net assets decreased by \$10,886. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost

EVART PUBLIC LIBRARY

EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2006, \$52,802 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2006, \$10,681 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$42,122 for the fiscal year ended June 30, 2006.

E. Results of Operations

For the fiscal years ended June 30, 2006 and 2005, the results of operations were:

	2006		2005	
	Amount	% of Total	Amount	Total
General Revenues				
Property Taxes	\$ 56,335	35.73%	\$ 55,621	38.83%
Investment Earnings	323	0.20%	296	0.21%
State Sources	75,412	47.84%	76,475	53.39%
Other	24,805	15.73%	9,754	6.81%
Total General Revenues	<u>\$156,875</u>	<u>99.50%</u>	<u>\$142,146</u>	<u>99.24%</u>
Program Revenues				
Operating Grants	<u>\$ 789</u>	<u>0.50%</u>	<u>\$ 1,082</u>	<u>0.76%</u>
Total Revenues	<u><u>\$157,664</u></u>	<u><u>100.00%</u></u>	<u><u>\$143,228</u></u>	<u><u>100.00%</u></u>
Expenses				
Recreation and Culture	\$164,718	97.73%	\$151,866	96.88%
Interest on Long-term Debt	3,832	2.27%	4,886	3.12%
	<u>\$168,550</u>	<u>100.00%</u>	<u>\$156,752</u>	<u>100.00%</u>
Change in Net Assets	<u><u>\$ (10,886)</u></u>		<u><u>\$ (13,524)</u></u>	

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

EVART PUBLIC LIBRARY

EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

1. Property Taxes

The Library receives property taxes for operations.

For the year ended June 30, 2006, the Library recognized \$56,335 of property tax revenue, an increase of 1.3% from 2005 fiscal year.

2. State Sources

The majority of the state sources are comprised of penal fines received from Clare and Osceola Counties. The Library collected \$69,877 in penal fines for the year ended June 30, 2006 and received state aid of \$5,535.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on June 30.

For the year ended June 30, 2006, the Library amended the general fund budget in June 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Total Revenues	\$ 151,650	\$151,650	\$157,664	\$ 6,014
Total Expenditures	152,150	179,481	145,467	34,014

H. Capital Asset

1. Capital Assets

At June 30, 2006, the Library had \$889,744 in capital assets, including land, buildings, equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$52,803 bringing the accumulated depreciation to \$231,764 as of June 30, 2006.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

I. Long-Term Debt

As of June 30, 2006, the Library owes \$38,736 on the line of credit. The Library did not borrow any additional money during this fiscal year. Total debt decreased from \$58,740 at June 30, 2005 to \$38,736 at June 30, 2006, a reduction of \$20,004. The balance is currently due July 3, 2011 and requires monthly payments of \$790.76. The line of credit has a fixed interest rate of 8%. More information on the Library's long-term debt is available in the Notes to Financial Statements section of this document, on page 15.

J. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from property taxes and penal fines, any impairment to these funding sources would greatly impact the future of the Library.

K. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Evart Public Library, 104 N. Main Street, Evart, Michigan 49631.

EVART PUBLIC LIBRARY
EVART, MICHIGAN
STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 31,238
Taxes Receivable	347
Due from Other Governmental Units	39,928
Investments	<u>11,340</u>
Total Current Assets	<u>\$ 82,853</u>

NON CURRENT ASSETS

Capital Assets	\$ 889,744
Less Accumulated Depreciation	<u>(231,764)</u>
Total Non Current Assets	<u>\$ 657,980</u>

TOTAL ASSETS	<u><u>\$ 740,833</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 839
Payroll Liabilities	244
Accrued Interest	965
Current Portion of Long Term Debt	<u>6,046</u>
Total Current Liabilities	<u>\$ 8,094</u>

NON CURRENT LIABILITIES

Line of Credit Payable	\$ 38,736
Less Current Portion	<u>(6,046)</u>
Total Non Current Liabilities	<u>\$ 32,690</u>
Total Liabilities	<u>\$ 40,784</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	\$ 619,244
Unrestricted	<u>80,805</u>
Total Net Assets	<u>\$ 700,049</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 740,833</u></u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	GOVERNMENTAL ACTIVITIES
			NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>			
Recreation and Culture	\$ 164,718	\$ 789	\$ (163,929)
Interest on Long-term Debt	3,832	0	(3,832)
Total Governmental Activities	<u>\$ 168,550</u>	<u>\$ 789</u>	<u>\$ (167,761)</u>
<u>GENERAL REVENUES</u>			
Property Taxes -General Purposes			\$ 56,335
Investment Earnings			323
State Sources			75,412
Contributions and Donations			11,360
Other			<u>13,445</u>
Total General Revenues			<u>\$ 156,875</u>
Change in Net Assets			\$ (10,886)
<u>NET ASSETS</u> - Beginning of Year			<u>710,935</u>
<u>NET ASSETS</u> - End of Year			<u>\$ 700,049</u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

GENERAL FUND
BALANCE SHEET

JUNE 30, 2006

ASSETS

Cash	\$ 31,238
Receivables	
Taxes	347
Due From Other Governmental Units	
Clare County	3,704
Osceola County	31,860
Osceola Township	836
Sylvan Township	750
State of Michigan	2,778
Investments	<u>11,340</u>
 TOTAL ASSETS	 <u><u>\$ 82,853</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 839
Payroll Liabilities	<u>244</u>
Total Liabilities	<u><u>\$ 1,083</u></u>

FUND BALANCE

Unreserved	
Undesignated	<u>\$ 81,770</u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 82,853</u></u>
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The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

JUNE 30, 2006

Total General Fund Balance	\$ 81,770
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not
reported in the funds

The cost of the capital assets is	889,744	
Accumulated depreciation is	<u>(231,764)</u>	657,980

Long term liabilities are not due and payable in the current period and are
not reported in the funds

Line of Credit Payable	(38,736)
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Accrued interest is not included as a liability in government funds, it is recorded when paid	<u>(965)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 700,049</u></u>
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The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Local		
City of Evart		
Current Property Tax	\$ 40,000	\$ 35,900
Industrial Facilities Tax	0	833
Evart Township		
Current Property Tax	12,000	12,472
Osceola Township		
Current Property Tax	6,000	7,130
State Grants		
Library State Aid	7,800	5,535
Library Penal Fines		
Clare County	4,000	3,704
Osceola County	70,000	66,173
Contribution from Local Units		
Hartwick Township	300	300
Orient Township	300	400
Sylvan Township	300	750
Interest and Rents		
Interest and Dividends	350	323
Other Revenues		
Contributions and Donations from Private Sources	9,000	9,910
Charges for Services	1,000	789
Sale of Books	600	659
Adjustments to Prior Year Accounts	0	11,340
Miscellaneous	0	1,446
Total Revenues	<u>\$ 151,650</u>	<u>\$ 157,664</u>
<u>EXPENDITURES</u>		
Recreation and Culture		
Personal Services		
Librarian	\$ 32,200	\$ 28,832
Technician and Aides	22,250	21,381
Custodial	9,500	6,451
Treasurer	2,200	2,200
Museum Coordinator	5,100	5,100
Museum Assistant	1,500	1,500
Trustees	2,000	1,860

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>
Fringe Benefits		
Social Security and Medicare	9,500	5,147
Supplies		
Office Supplies	1,000	902
Operating Supplies	1,400	1,227
Magazines and Newspapers	1,330	1,326
Museum Supplies	640	640
Computer Supplies	4,000	2,350
Purchased Services		
Auditing and Bookkeeping	3,105	3,105
Insurance		
Liability	2,500	2,479
Bond	65	0
Worker's Compensation	761	761
Telephone	2,011	2,029
Travel and Education	75	32
Utilities		
Heat	7,500	5,918
Electricity	6,500	5,756
Sewer and Water	250	191
Repairs and Maintenance	7,600	7,598
Capital Outlay		
Books	15,000	10,681
Equipment	7,500	901
Miscellaneous Expense		
State Aid - Membership	4,430	2,757
Dues and Memberships	340	337
Miscellaneous	1,139	1,135
Debt Service		
Loan Interest Payments	2,996	2,867
Principal Payment	20,004	20,004
Contingency	5,085	0
Total Expenditures	<u>\$ 179,481</u>	<u>\$ 145,467</u>
Excess (Deficiency) of Revenues		
Over Expenditures	\$ (27,831)	\$ 12,197
<u>FUND BALANCE</u> - Beginning of Year	<u>69,573</u>	<u>69,573</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 41,742</u>	<u>\$ 81,770</u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Net change in Fund Balance General Fund	\$ 12,197
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(52,803)	
Capital Outlay	<u>10,681</u>	(42,122)

Accrued interest on loans is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.

Accrued Interest Payable - Beginning of Year	0	
Accrued Interest Payable - End of Year	<u>(965)</u>	(965)

Long-term debt principal payments are not expensed on the Statement of Activities, instead charged to the Line of Credit liability account.	<u>20,004</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (10,886)</u></u>
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The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Evert Public Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

A. Reporting Entity

The Evert Public Library is a district library established under the provision of Act No. 164, Public Acts of 1955. The accounting policies of the Evert Public Library conform to generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant policies:

The financial statements of the Evert Public Library include the accounts of all operations. The Library's major operation is to operate a public library in Evert, Michigan. The Library board consists of six members, two of whom are appointed by each of the City of Evert, Evert Township and Osceola Township. As such, the City of Evert, Evert Township and Osceola Township are all 1/3 owners of the Library.

In addition, there are no component units to be included in the Library's reporting entity as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

The Library's investment policy states that the Evart Public Library is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- (a) Certificates of Deposit
- (b) Savings Accounts
- (c) Money Market Accounts

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	10 years
Building	50 years
Furniture and Equipment	10 years
Building Improvements	20 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$1,000 and all books.

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3. Compensated Absences

Accumulated unpaid vacation, sick pay and other employee benefit amounts are not accrued in governmental funds (using the modified accrual basis of accounting). The Library does not allow employees to accrue these benefits beyond the end of the fiscal year. Also, upon termination of employment the employee will not be paid for any benefits accrued during the fiscal year.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

6. Fund Balance

In the financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserves of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The board of directors of the Library annually prepares an operating budget. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.

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3. All transfers of budget amounts between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON GENERAL FUND

A. Deposits and Investments

The Library's deposits are all on deposit with Citizens Bank. The Library's investments consist of shares of Automatic Data Processing, Inc.

Investment rate risk. The Library will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Library's cash requirements.

Foreign currency risk. The Library is not authorized to invest in investments, which have this type of risk.

Credit risk. The Library will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Library's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Library will do business in accordance with the Library's investment policy.

Concentration of credit risk. The Library will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, \$0 of the Library's bank balance of \$47,371 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library's investments are categorized to give an indication of the level of risk assumed by the Library at year end. Category 1 includes investments that are insured or registered, or securities held by the Library or the Library's agent in the Library's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Library's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Library's name. At year end all of the Library's investments were uncategorized as to risk. The Library's investment in Automatic Data Processing, Inc. is at fair market value on the date of donation. Current market value is approximately \$12,400.

Balance sheet classifications:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash	\$ 31,238	\$ 0	\$ 31,238
Investments	0	11,340	11,340
	<u>\$ 31,238</u>	<u>\$ 11,340</u>	<u>\$ 42,578</u>

B. Due from Other Governments

Amounts due from other governments of \$39,928 are comprised of penal fines, property taxes and state aid.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

C. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets:				
Land	\$ 15,000	\$ 0	\$ 0	\$ 15,000
Books	217,004	10,681	0	227,685
Building	90,000	0	0	90,000
Furniture and Equipment	28,989	0	0	28,989
Building Improvements	528,070	0	0	528,070
Subtotal	\$ 879,063	\$ 10,681	\$ 0	\$ 889,744
Less Accumulated Depreciation:				
Books	\$ 100,482	\$ 21,700	\$ 0	\$ 122,182
Buildings	13,050	1,800	0	14,850
Furniture and Equipment	12,205	2,900	0	15,105
Building Improvements	53,224	26,403	0	79,627
Subtotal	\$ 178,961	\$ 52,803	\$ 0	\$ 231,764
Net capital assets	\$ 700,102	\$ (42,122)	\$ 0	\$ 657,980

Depreciation for the fiscal year ended June 30, 2006 amounted to \$52,803.

D. Property Taxes

The Library receives revenue from a city millage on the July tax roll. The taxes are levied as of July 1 and are due upon receipt of the billing by the taxpayer. The actual due date is August 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. The Library also receives taxes from two Townships; Osceola and Evart.

For the year ended June 30, 2006, the Library levied the following mills per \$1,000 of taxable valuation on the city residents.

<u>PURPOSE</u>	<u>MILLS</u>	
Operating	.9702/\$1,000	City
Operating	.0300/\$1,000	Townships

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

E. Long-Term Debt

The Library has secured a line of credit for \$100,000 to be used to complete the construction project which is remodeling the Library building. The remodeling is now complete. The balance outstanding at June 30, 2006 was \$38,736, which carried an interest rate that varied from 5.2% to 7.5% based on prime rate plus 1%. The note became due April 24, 2006 and was renewed July 3, 2006 at a fixed interest rate of 8% requiring monthly payments of \$790.76 for the next five years.

A summary of the Long-Term Debt transactions for the Library for the year ended June 30, 2006, is as follows:

	<u>LINE OF CREDIT</u>
Long-Term Debt at July 1, 2005	\$ 0
New Liabilities	58,740
Liabilities Retired	(20,004)
Liabilities Classified as Current	<u>(6,046)</u>
Long-Term Debt at June 30, 2006	<u><u>\$ 32,690</u></u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2006, including interest payments of \$8,391 and a loan processing fee of \$150 paid July 3, 2006 are as follows:

<u>YEAR ENDING JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2007	\$ 6,046	\$ 2,653
2008	7,119	2,370
2009	7,710	1,779
2010	8,350	1,139
2011	9,043	446
2012	<u>617</u>	<u>4</u>
	<u><u>\$ 38,885</u></u>	<u><u>\$ 8,391</u></u>

F. Retirement Benefits

Retirement benefits are provided to the librarian through contributions to individual retirement accounts after completing one year of service for the Library. Such contributions equal \$100 per month for the librarian. Individual retirement account balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which would be includible

EVART PUBLIC LIBRARY
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NOTES TO FINANCIAL STATEMENTS
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as part of the Library reporting entity. For the year ended June 30, 2006, \$1,200 was contributed to the individual retirement account of the librarian.

G. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters. The Library participates in a pool of municipalities within the State of Michigan for workers' compensation insurance. The Library pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Library has not been informed of any special assessments being required for the current year or previous three prior years.

H. Collections of Works of Art and Historical Treasures

The Library, over the years, has received contributions from patrons for such items as mastodon bones collections and rare books. The Library considers these items to be of an intangible nature, and is unable to place a cost on the items. Therefore, the items are not shown on these financial statements, and accordingly, no depreciation expense has been recorded on these items.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
<u>REVENUES</u>				
Local Sources	\$ 69,850	\$ 69,850	\$ 82,252	\$ 12,402
State Sources	81,800	81,800	75,412	(6,388)
Total Revenues	<u>\$ 151,650</u>	<u>\$ 151,650</u>	<u>\$ 157,664</u>	<u>\$ 6,014</u>
<u>EXPENDITURES</u>				
Recreation and Culture				
Personal Services	\$ 70,000	\$ 74,750	\$ 67,324	\$ 7,426
Fringe Benefits	4,800	9,500	5,147	4,353
Purchased Services	24,665	30,367	27,869	2,498
Supplies	7,900	8,370	6,445	1,925
Capital Outlay	22,500	22,500	11,582	10,918
Miscellaneous	5,200	5,909	4,229	1,680
Debt Service				
Principal and Interest	12,000	23,000	22,871	129
Contingency	5,085	5,085	0	5,085
Total Expenditures	<u>\$ 152,150</u>	<u>\$ 179,481</u>	<u>\$ 145,467</u>	<u>\$ 34,014</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (500)	\$ (27,831)	\$ 12,197	\$ 40,028
<u>FUND BALANCE</u> - Beginning of Year	<u>69,573</u>	<u>69,573</u>	<u>69,573</u>	<u>0</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 69,073</u>	<u>\$ 41,742</u>	<u>\$ 81,770</u>	<u>\$ 40,028</u>

EVART PUBLIC LIBRARY
EVART, MICHIGAN

STATEMENT OF 2005 TAX ROLL
JUNE 30, 2006

	TAXABLE VALUE	MILLS LEVIED	TAXES ASSESSED	COLLECTIONS	TAXES RETURNED DELINQUENT
City of Evart					
Current Property Tax	\$ 51,976,428	0.9702	\$ 50,427		
Less: D.D.A. Captured	(3,750,621)	0.9702	(3,640)		
L.D.F.A. Captured	(11,221,398)	0.9702	(10,887)		
	<u>\$ 37,004,409</u>	<u>0.9702</u>	<u>\$ 35,900</u>	\$ 35,900	\$ 0
Industrial Facilities Tax	\$ 1,716,350	0.4851	833		
Less: L.D.F.A. Captured	<u>0</u>	<u>0.4851</u>	<u>0</u>		
	\$ 1,716,350	0.4851	<u>833</u>	<u>833</u>	<u>0</u>
			\$ 36,733	\$ 36,733	\$ 0
Evart Township	\$ 41,573,478	0.30	12,472	12,472	0
Osceola Township	\$ 23,766,978	0.30	<u>7,130</u>	<u>7,130</u>	<u>0</u>
			<u>\$ 56,335</u>	<u>\$ 56,335</u>	<u>\$ 0</u>
Total Amount Captured by the D.D.A. and L.D.F.A. Combined			<u>\$ 14,527</u>		

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

August 29, 2006

LETTER OF REPORTABLE CONDITIONS

Evart Public Library
Evart, Michigan

In planning and performing our audit of the basic financial statements of the Evart Public Library for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

1. The relatively small number of people involved in the accounting functions of the Library makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.